

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 3311-03  
BILL NO.: HCS for HB 1362  
SUBJECT: Insurance - Medical; Health Care; Medical Procedures and Personnel  
TYPE: Original  
DATE: January 24, 2000

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
General Revenue	(\$1,012,064 to \$4,217,273)	(\$1,221,952 to \$7,205,822)	(\$1,235,897 to \$8,631,772)
County Foreign Insurance	(\$623,233 to \$3,828,442)	(\$124,647 to \$2,903,308)	\$0 to (\$664,125)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$1,635,297 TO \$8,045,715)</b>	<b>(\$1,346,599 TO \$10,109,130)</b>	<b>(\$1,235,897 TO \$9,295,897)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b>Local Government</b>	<b>\$0</b>	<b>(\$623,233 TO \$3,828,442)</b>	<b>(\$747,880 TO \$6,731,750)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 7 pages.

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Public Safety - Missouri State Highway Patrol**, the **Department of Conservation**, the **Department of Social Services**, the **Missouri Consolidated Health Care Plan**, and the **Department of Transportation** assume this proposal would not fiscally impact their agencies.

**Missouri Consolidate Health Care Plan (HCP)** officials did not respond to our fiscal impact request. However, in responding to a similar proposal from last session, HCP assumed there would be no fiscal impact.

The **Department of Insurance (INS)** states this proposal lowers the premium cap for the insureds in the Missouri Health Insurance Pool (MHIP) from 200% to 135% of rates applicable to individual standard risks. The differences between the premiums paid by the insureds in the MO Health Insurance Pool (MHIP) and the claims paid out to the insureds in the pool are assessed to insurers. These assessments are taken as credits against the insurers premium tax liability. Increased assessments effectively reduce the amount of revenue collected under premium tax, and this revenue is divided evenly between General Revenue and the County Foreign Insurance fund. Officials from MHIP estimate that replacing the 200% premium cap with a 135% cap would require an approximate 56% increase in assessments to insurers if the population of insureds in the pool remains constant. MHIP reported 1,032 insureds in the pool during 1997. The 1997 assessment charged was \$2,671,000. Reducing the premium cap to 135% of the standard rate would require an approximate 56% increase in assessments, or \$1,495,760.

In addition, INS states it is reasonable to assume that the MHIP population could grow to 10,000 or more insureds based on Minnesota's experience which has a similar program. INS assumes for the purposes of calculating fiscal impact that 50% of the new members would be at the 135% rate due to HIPAA eligibility or because of the open enrollment, and the remaining 50% would join the pool at the 200% rate. INS has phased in enrollment and estimates that 25% of the 10,000 members will join each year. INS also assumes a 50% turnover rate each year of members leaving the high-risk pool to go to the individual market because of individual market reforms and rate controls also included in the proposal.

INS notes that up to 10% of the HIPAA eligibles may never go into the high-risk pool and go directly to the individual market. Typically, pool membership consists of individuals with medical conditions and very high costs of care. Increased pool membership will likely reduce the costs per member as "less sick" individuals will share the costs of coverage for the more

ASSUMPTION (continued)

expensive members. For fiscal note purposes, it is assumed that claims would be reduced by 10% in FY01, and by 15% for FY02 and FY02, to reflect the impact of healthier pool members.

Fiscal impact is calculated as follows:

FY 2001

Additional cost for existing 1,000 pool members	\$1,495,760
Cost for 1,250 new members at 200% cap (\$2,404 each)	\$3,005,000
Cost for 1,250 new members at 135% cap (\$3,750 each)	<u>\$4,687,500</u>
Total (3,500 pool members)	<u><u>\$9,188,260</u></u>

FY 2002

First year reduced by 50% at 135% cap (1,750 members @ \$3,542 each)	\$6,198,500
Cost for 1,250 new members at 200% cap (\$2,270 each)	\$2,837,500
Cost for 1,250 new members at 135% cap (\$3,542 each)	<u>\$4,427,500</u>
Total (4,250 pool members)	<u><u>\$13,463,500</u></u>

FY 2003

Second year reduced by 50% at 135% (2,125 members @ \$3,542 each)	\$8,854,875
Cost for 1,250 new members at 200% cap (\$2270 each)	\$2,837,500
Cost for 1,250 new members at 135% cap (\$4,167 each)	<u>\$4,427,500</u>
Total (4,625 pool members)	<u><u>\$14,791,750</u></u>

A range of costs is reflected with the minimum based on the current MHIP insured population of approximately 1,000 and the maximum as shown above for each fiscal year. This fiscal impact, representing increased assessments to insurers and the resulting increase in premium tax credits, will be split evenly between General Revenue and the County Foreign Insurance fund.

INS assumes this proposal would also require one additional Insurance Health Care Specialist (\$40,536) for the Advisory Committee to administer the Health Insurance Purchasing Cooperative grant program. INS estimates Advisory Committee expenses to be \$100 per member for 10 members for 2 meetings per year. In addition, grants of up to \$400,000 per year can be awarded from General Revenue.

**Oversight** also assumes that there could be a decrease in uncompensated care cases since more previously uninsured persons would enroll in the MHIP. According to the **Department of Social Services**, the state reimburses hospitals in such instances a portion of the unpaid costs, with the hospitals incurring the remainder of the costs. Funds paid by the state to hospitals are ASSUMPTION (continued)

federal funds. Therefore, there could be some cost savings to federal funds as well as to some

county hospitals (local governments) due to anticipated decreases in uncompensated care cases.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**GENERAL REVENUE FUND**

Loss - Department of Insurance

Reduced premium taxes	(\$623,233 to \$3,828,442)	(\$747,880 to \$6,731,750)	(\$747,880 to \$7,395,875)
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Costs - Department of Insurance

Personal service (1 FTE)	(\$34,611)	(\$42,880)	(\$43,653)
Fringe benefits	\$103,450	(\$12,730)	(\$13,048)
Expense and equipment	<u>(\$343,875)</u>	<u>(\$418,754)</u>	<u>(\$431,316)</u>
Total <u>Costs</u> - Department of Insurance	<u>(\$388,831)</u>	<u>(\$474,072)</u>	<u>(\$488,017)</u>

**ESTIMATED NET EFFECT ON  
GENERAL REVENUE FUND**

<u>(\$1,012,064 TO</u>	<u>(\$1,221,952 TO</u>	<u>(\$1,235,897 TO</u>
<u>\$4,217,273)</u>	<u>\$7,205,822)</u>	<u>\$8,631,772)</u>

**COUNTY FOREIGN INSURANCE  
FUND**

Savings

Reduced distributions	\$0	<u>\$623,233 to</u> <u>\$3,828,442</u>	<u>\$747,880 to</u> <u>\$6,731,750</u>
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Loss of revenue

Reduced premium taxes	<u>(\$623,233 to</u> <u>\$3,828,442)</u>	<u>(\$747,880 to</u> <u>\$6,731,750)</u>	<u>(\$747,880 to</u> <u>\$7,395,875)</u>
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**ESTIMATED NET EFFECT ON  
COUNTY FOREIGN INSURANCE  
FUND**

<u>(\$623,233 TO</u>	<u>(\$124,647 TO</u>	<u>\$0 TO</u>
<u>\$3,828,442)</u>	<u>\$2,903,308)</u>	<u>\$664,125)</u>

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FISCAL IMPACT - Local Government

FY 2001  
(10 Mo.)

FY 2002

FY 2003

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**POLITICAL SUBDIVISIONS**

Loss of revenue

Reduced distributions from County  
 Foreign Insurance Fund

\$0	(\$623,233 to \$3,828,442)	(\$747,880 to \$6,731,750)
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**ESTIMATED NET EFFECT ON  
 POLITICAL SUBDIVISIONS**

<u>\$0</u>	<u>(\$623,233 TO \$3,828,442)</u>	<u>(\$747,880 TO \$6,731,750)</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses is expected as a result of this proposal.

DESCRIPTION

This proposal would make several changes to health insurance law. In its major provisions, the proposal would: (1) Establish the Advisory Commission on Health Insurance Mandates to be composed of the director of the Department of Insurance, the chairperson of the Insurance Committee of the House of Representatives, one member of the minority party of the House of Representatives, the chairperson of the Insurance and Housing Committee of the Senate, and one member of the minority party of the Senate. The commission would be charged with studying the costs and benefits of each health insurance benefit or offer mandated by Missouri law. The commission would report by January 1, 2001, the results of its study to the Governor, the Speaker of the House of Representatives, and the President Pro Tem of the Senate; (2) Allow individuals to be eligible for coverage through the Missouri Health Insurance Pool (also referred to as the "high risk pool") if they have been refused coverage, offered coverage at a rate exceeding 135% of the standard rate, or had coverage for not less than 12 months. The rate for coverage under the pool would be 135% of the standard rate for individuals who had continuous coverage through a date not less than 63 days prior to the effective date of pool coverage or who enroll during the open enrollment period. The rate for other eligible individuals would be 200% of the standard rate; (3) Modify the Small Employer Health Insurance Availability Act so that it would comply with the federal Health Insurance Portability and Accountability Act of 1996 (P.L. 104-191). A small employer would employ 2 to 50 employees under the proposal's revised provisions. Small employer plans would be allowed to apply preexisting condition exclusions during the first 12 months of coverage but would be required to waive the exclusions for the

DESCRIPTION (continued)

period of time that an individual has coverage continuous to a date not less than 63 days prior to obtaining the new coverage. The exclusion would also be waived if the individual's prior coverage is for a period of 12 of the most recent 18 months. Insurers would discontinue offering a plan under certain conditions. No preexisting condition exclusions would be allowed relating to pregnancy or a condition for which medical advice was received during a period when the person had qualifying coverage. The proposal would also remove from the proposal language that would require a husband and wife working for the same small employer to be considered one eligible employee; (4) Require the Department of Insurance to administer a grant program to assist in the establishment of health insurance purchasing cooperatives. Each grant would be limited to \$25,000. Funds for the grants would be appropriated from general revenue and the total amount of grants may not exceed \$400,000; and (5) Prohibit insurance companies from requiring the purchase of life insurance as a condition of purchasing health insurance.

The proposal would also include several provisions with an effective date of July 1, 2001. Those provisions would: (1) Require insurers to issue individual policies of health insurance without medical underwriting if the applicant had prior creditable coverage which was terminated within 63 days prior to the application, the period of creditable coverage would be not less than 12 months, and the individual would have exhausted any COBRA coverage. An insurer would not be required to issue individual health benefit coverage without medical underwriting when such plans constitute 2% or more of that insurer's earned premium on an annual basis from individual health plans. The proposal would also include several rating restrictions for individual health insurance policies; (2) Establish an individual health benefit reinsurance association and would require all entities providing health insurance or health benefits subject to state insurance regulation to be members of the association. Those entities that would provide plans only for Medicaid recipients are exempted from membership. The association's board would be responsible for developing a plan to provide for the sharing of losses related to individuals enrolled in health plans without medical underwriting. Board members would be immune from civil liability for performing duties required by the proposal's provisions; (3) Allow entities issuing individual health insurance policies to apply preexisting condition exclusions during the first 12 months of coverage but are required to waive the exclusions for the period of time that an individual has coverage continuous to a date not less than 63 days prior to obtaining new coverage; and (4) Require health insurers to follow certain procedures if they close a block of business.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Department of Insurance

MPW:LR:OD:005 (9-94)

L.R. NO. 3311-03  
BILL NO. HCS for HB 1362  
PAGE 7 OF 7  
January 24, 2000

Department of Transportation  
Department of Conservation  
Department of Social Services  
Department of Public Safety  
Missouri State Highway Patrol  
Missouri Consolidated Health Care Plan

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA  
Director  
January 24, 2000